

Zero-Commute Futures

Opportunities for Live-Work Housing

A Resilient Communities Project–GreenStep Cities Guide



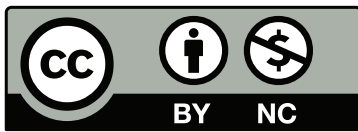
Resilient Communities Project

UNIVERSITY OF MINNESOTA

Building community-university partnerships for sustainability

This report was produced by the Resilient Communities Project (RCP), a program at the University of Minnesota whose mission is to connect communities in Minnesota with U of MN faculty and students to advance local sustainability and resilience through collaborative, course-based projects. RCP is a program of the Center for Urban and Regional Affairs (CURA). More information at <http://rcp.umn.edu>. Funding for the report was provided by GreenStep Cities, a program of the Minnesota Pollution Control Agency, through a grant from the McKnight Foundation. More information at <https://greenstep.pca.state.mn.us>.

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Zero-Commute Futures: Opportunities for Live/Work Housing in North Saint Paul

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INTRODUCTION

As a part of greater redevelopment plans, several cities statewide have begun considering new approaches to land uses and opportunities for economic growth. Live-work housing is one such option, seeking to maximize use of space to its highest and best use, leading to higher job creation and retention rates and increasing the tax base of the community.

This report provides a summary of live-work housing as an opportunity for creation of a mix of housing choices in the community and to expand the economic base through job creation. It will highlight relevant case studies and necessary considerations for proper zoning and policy to support live-work housing. It takes into account public documents, academic analyses, and interviews with live-work housing developers in Minnesota to provide well-informed recommendations.



A Profile of Live-Work Housing

Across the nation, city planning and design has seen a marked shift back to walkable communities. As early as 1980, examples of intentional live-work housing and business designs were formulated in some of the highest-commute cities in the nation. Live-work housing (sometimes referred to as zero-commute living) is any structure which provides both residential and work space in a single property.

Residents or non-resident employees may work on site. It exists as a form of land use which is neither commercial nor residential alone, but a combination of the two. According to Dolan (2012), most residents of live-work housing will work within a quarter mile of where they live. Research shows that the past 25 years have seen a 70% increase in self-employment.¹ Statewide, the percentage of people working from home has increased 13% between 2000 and 2014, from 4.6% to 5.2% of Minnesota's workforce.²

This population working from home tends to be "better educated and more affluent than those who commute to a conventional workplace every day."³ Despite being difficult to quantify, the market for live-work housing is likely greater than the current number of live-work residences and is likely to grow as U.S. communities reurbanize.

Live-work real estate developers and municipalities should respond appropriately to match the development potential. Live-work design is linked with "complete neighborhoods" ideas, where most of a household's necessities exist within a 15-minute walking distance. It is important to consider neighborhood features and design surrounding the development to successfully integrate live-work housing.

LIVE-WORK HOUSING HAS BECOME INCREASINGLY POPULAR FOR A NUMBER OF REASONS:



IT IS AFFORDABLE

By eliminating the rent payment of an office space, the resident theoretically saves on the rent of the workspace. Additionally, they save money devoted to transportation by eliminating their daily commute. Businesses benefit as well. With increased web access and technological tools which make face-to-face interaction less necessary in business and education, more companies are choosing to save on office rental space and offer telecommute options to their employees. Developers also benefit from cost savings by creating live-work housing, as they are generally designed for flexible use and do not require certain design features such as ceiling paneling or additional walls.



IT SAVES TIME

According to the U.S. Census Bureau, the average U.S. resident has a 25.4 minute commute each direction.⁴ Across Minnesota, the average resident commutes 23 minutes each direction. Residents that choose to work where they live could save an average of 230 minutes per week of travel time, or about 200 hours per year by eliminating their commute time.

"The average US resident has a 25.4 minute commute in each direction."



IT MATCHES THE NEEDS OF CHANGING DEMOGRAPHICS

Nationwide, there is an increase in the number of two-income households, where one or both individuals spend some portion of the week telecommuting from home.⁴ The advantages of being able to work when and where you want have also been studied and heralded as revolutionizing employee efficiency.⁵



IT MATCHES POPULAR DESIGN FEATURES

Due to a variety of factors, areas are seeing a return to interest in walkable communities, human-scaled design, and more dense living environments. New construction of live-work housing tends to be located near services, amenities, and transit, often thriving in such a community. In light of the current appeal of this type of living environment and its known benefits of decreasing automobile use, many cities are encouraging this form of development by modifying zoning codes and providing other incentives.⁷

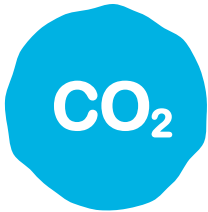


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IT IS FLEXIBLE

Residents and city officials alike benefit from the flexible nature of live-work housing. In challenging economic times, such spaces can easily change or adapt their use to meet changing needs of residents or the community.



IT IS ENVIRONMENTALLY RESPONSIBLE

Based on statewide average commute times, a conservative estimate is that each commuter puts about 3.75 tons of carbon dioxide into the atmosphere every year.¹¹ This is a contribution to climate change that can be eliminated via live-work housing.

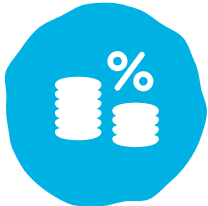


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IT FOSTERS ECONOMIC DEVELOPMENT AND DIVERSIFIES LOCAL ECONOMY

Live-work housing offers more flexible options in uncertain economic times, providing for a mix of compatible uses in a single structure. It grows a community's tax base, spurs current property taxes to increase, and creates job opportunities. Such "ripple effects" are commonly cited by developers as good for business and communities.⁹



IT BRINGS VACANT AND UNDERUTILIZED SPACES BACK ONTO TAX ROLLS

By boosting area property values, live-work developments can have a significant impact in communities. One live-work development studied in 2011—the Tashiro Kaplan in Seattle, WA—grew from an appraised value of \$2.8 million in 2003 to \$16.9 million in 2010. The same property paid \$500 in property taxes in 2003, and over \$28,000 per year in 2010. Looking over a 2.5-mile radius, it is estimated that the Tashiro Kaplan increased area property values by about \$14,679 per house or condo.¹⁰



IT CREATES POSITIVE EXTERNALITIES IN THE COMMUNITY

Numerous studies reveal the social benefits and community revitalization that results from developing live-work communities. Live-work environments can reduce crime and revitalize communities, in many cases without gentrification-led displacement.¹¹ One study done by live-work developer Artspace shows the Tashiro Kaplan development saw greater job growth surrounding the development as compared to the greater county in which it is located.¹² When done well, they can create vibrant, attractive places to live and work.

This report will outline the specific types of live-work housing and define some key terms that will be used throughout the report. Next, it will discuss zoning and space requirements for a live-work housing development. It will then describe a number of case studies for large-site and small-site live-work housing of various proximity types.

Lastly, it will discuss funding and incentive options, as well as a summary of the overall cost of live-work housing as it would relate to a similar-scale residential or commercial-only development while providing policy recommendations for implementing live-work housing in the community fabric.

Types of Live-Work Housing

This section of the report will define and describe the three basic proximity types of live-work housing.

LIVE-WITH

Often referred to as “loft” housing, this kind of live-work housing combines living and working space into one common location. It is the style of housing most often associated with “artists lofts” where the architectural design of the space is often marked by minimal walls and design features. The emphasis is on openness and flexibility of space, with highest-possible ceiling heights.



LIVE-NEAR

This type of live-work housing provides moderate separation from live and work uses, but still combining the two uses in the same physical structure. The typical separation is either a floor or a ceiling, clearly separating the two uses. This kind of separation can be beneficial in cases where exposure to hazardous materials or high-impact work would be associated with the workplace. A common example would be a townhouse design with a commercial use on the first floor and residences on upper floors. Live-near housing is slightly less flexible than live-with housing, but still provides great flexibility in uses. For example, depending on the economic opportunities in a neighborhood and the building’s design, a three-level live-near building might use the first floor for work and the top two floors for residential use, both the first and second floors for work and only the top floor for residential use, or even up to all three levels for residential use alone.



LIVE-NEARBY

The live-nearby proximity type is most relevant for work types that require machinery, hazardous materials, or excessive noise. In this model, only a short walk separates the living space and the working space on a shared plot of land. Classification as live-nearby housing (as opposed to simply mixed-use allows for existence in places where either residential, commercial, or light industrial space alone may be otherwise prohibited.



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Figure 1: Requirements of Live-Work Proximity Types¹³

LIVE-WORK PROXIMITY TYPES	DESCRIPTION	WORK AND USE CATEGORIES	UNIT SIZE REQUIREMENTS
LIVE-WITH	Residential space and workspace are one and the same	Radio, home office, artist, and custom manufacturing	800-1,500 square foot living space, work space should not exceed 10% of the unit area (capped at 1,500 square feet)
LIVE-NEAR	Residential space and workspace are separated by a wall or ceiling	Antiques, wholesales, and junk sales	800-3,000 square foot living space, work space should not exceed 10% of each unit space
LIVE-NEARBY	Residential space and workspace occur in different structures but on the same property	Auto repair and customization, lumberyard, courier services, and call center	800-3,000 square foot living space, work space separate from living not to exceed 5,000 square feet

Figure 1 outlines these three proximity types along with the types of work that could be seen in each one. Any uses described in live-with could also be present in live-near or live-nearby, and any uses listed in live-near are also compatible with live-nearby. Also included are the minimum lot size guidelines for each type of live-work development. Note that there is significant flexibility in the unit size and lot size requirements for a successful development; the most attention must be paid to the types of work uses that will be present and the minimum requirements for those future occupants. Any of these types of live-work housing may be compatible and convertible to residential, commercial, and mixed-use options, with live-nearby also offering the added option of light industrial uses. Units typically should cap at 1,500 square feet of living and working space, though unit sizes up to 3,000 square feet can be granted upon receipt of a conditional use permit. Live-work housing should not exceed 3,000 square feet based on International Building Code Section 419, except in live-nearby housing where fire-rated occupancy separations have been provided. In terms of size of the development, most developers prefer lot sizes of about 25,000 square feet or more, as this is the most cost-effective and ultimately profitable (see the “Funding and Financing” section on page 15).

Types of Live-Work Housing

DEFINITIONS

Before continuing with the guidelines for selecting an appropriate site for live-work housing, several key terms must be defined, including common synonyms for live-work housing.

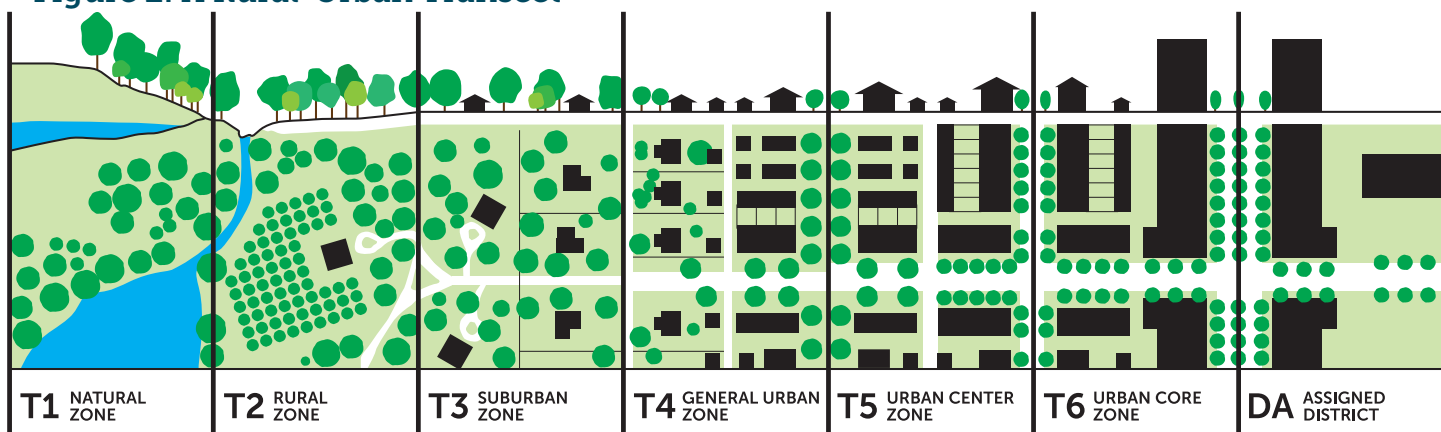
District—A portion of a city in which there is one dominant land use or design-based code. For example, a warehouse district, airport, or arts district.

Form-Based Code—A planning and design method for regulating community form over function, meaning that a predictable physical form of the built environment is maintained with a lesser focus on the existing land uses.

Live-Work Housing—Also known as Zero-Commute Housing.

Live-Work Neighborhood—A neighborhood where the majority of the working individuals also work within five minutes of where they live and can meet most daily needs within a fifteen-minute walk radius. Also known as a lifelong neighborhood or complete neighborhood. Many live-work neighborhoods are also walkable neighborhoods.

Figure 2: A Rural-Urban Transect



Smart Growth—An design movement which focuses design efforts on creating mixed-use, walkable, human-scale communities of relative density and compactness. Also known as New Urbanism.

Urban-to-Rural Transect—A tool developed by Duany Plater-Zyberk and widely used among designers and planners ascribing to form-based codes. In this tool, six different transect zones correspond to increasingly dense urban development from T1 to T6 (outside to inside). These zones are helpful in defining types of live-work housing. T1—Natural Zone; T2—Rural Zone; T3—Suburban Zone; T4—General Urban Zone; T5—Urban Center Zone; T6—Urban Core Zone. The original transect created by Duany Plater-Zyberk is shown as Figure 2, reprinted from the Miami-Dade Parks and Open Space Master Plan.¹⁴

Walkable Neighborhoods—A community where any given resident can meet their most basic living, recreational, alimentary, and work needs within a fifteen-minute walking radius from home.

Zero-Commute Living—A view of human settlements which is currently growing in popularity, which advocates for walkable neighborhoods.

Selecting an Appropriate Site for Live-Work Housing

Live-work housing is ideally suited for integration into existing multi-use areas where residential, commercial and even light industrial may coexist. Live-work housing can be a catalyst for reinventing dynamic neighborhoods because they bring in new and thriving businesses as well as residents in central districts. With the focus on walkability and integration, live-work housing benefits from proximity to other businesses and amenities, transportation options, schools, and community with other live-work developments.¹⁵

Live-work housing can serve to increase density and diversity in the downtown area with smaller residence and vertical design. The construction of zero-commute housing can prioritize the focus on pedestrian traffic among a core population within the downtown district and can spur greater focus on walkability. Live-work housing can serve as a transition between residential and business districts, allowing for a gradual change in use and perception among visitors.

Depending on large-site or small-site, or their intended use, there are other considerations that may be important when choosing where to place live-work housing. When considering live-work development in a community, attend to the recommended lot sizes. Further considerations will be addressed in their respective sections.

According to Kim Moore and Heidi Kurtze of Artspace, a successful live-work development is one that meets the needs of undeserved artist communities. They find that smaller communities just outside of primary cities are some of the most successful communities for live-work development, because they are often more willing to respond to the needs of developers to reach a common goal. The site must be appropriate and attractive to the target community, there must be significant community and political leadership in support of the project, and there must be sufficient financial resources for the project.¹⁷

General Considerations Regarding Live-Work Housing

Artist spaces in particular have been found to meet artist needs (at 85% as surveyed by Artspace in 2011), and provide affordable housing for artist communities in the lowest income brackets (69% of those surveyed by Artspace in 2011 said their space was affordable).¹⁶ The keys to successful art spaces, as outlined by Artspace are:

- 1** | Affordable, stable space that is physically appropriate for artists and their organizations
- 2** | Governance structures within the community to encourage involvement and manage potential conflicts
- 3** | Active internal communities driven by key leaders
- 4** | Building features, anchor organization tenants, and special programs that tie the building to the community
- 5** | Geographic connectivity with other artists and community amenities that complement the live-work lifestyle.

DEVELOPMENT

In the vast majority of live-work cases, projects are proposed to the developer's consulting department by municipalities or neighborhood groups.¹⁸ The municipal government must have its finger on the pulse of the community and be aware of what particular developers can offer. After the city approaches the developer's consulting department, they meet with all community stakeholders and grassroots artists through a series of focus groups. This process can take up to two years. The consulting department seeks to ensure that a project will be successful, and only projects with high potential for success will be taken on. In the case of Artspace, they know they will likely be the owners for 50 years, and they cannot risk taking on an unsuccessful project.¹⁹

After the project has been fully evaluated for suitability, the development team takes on the project. First, they examine potential sites the city has identified, evaluating each potential site by the necessary building footprint for cost-effectiveness, the best locations based on transit, gallery, grocery, and school locations, and a full analysis of the soil at each potential site. Once a location for the development has been selected, design and construction begins. In the last six to nine months of construction, the asset management team begins the marketing and lease-up process, also making sure that key marketable amenities are kept in the development to meet the expectations within the local housing market.²⁰

NEW CONSTRUCTION VERSUS SUBSTANTIAL REHAB CONSTRUCTION

According to Heidi Kurtze, Vice President of Property Development at Artspace Projects, new construction projects are easier, less costly, and more predictable than substantial rehab projects.²¹ New construction is easier because a whole new structure is created from scratch with no complications of historic qualities or incompatible designs from old structures. It is less costly because of the fewer overhead costs, quicker construction capability, and less risk assumed. On a new construction project, Artspace generally has a 5% contingency, while they generally have a 15% contingency on rehab projects—a 10% difference in costs.²²

Figure 3: The Development Process

	MAIN ACTOR	ACCOMPLISHMENT	TIME
STAGE 1	City/Community Organization	Approach Developer with Proposal	1-12 Months
STAGE 2	Consulting Team	Suitability Analysis, Focus Groups	1-2 Years
STAGE 3	Developing Team	Site Selection, Design, Construction	1-2 Years
STAGE 4	Asset Management	Marketing, Leasing, Tenant Relations	Begin 6-9 Months before Construction is Completed

According to Heidi Kurtze, this is the reason why historic funding sources exist—to offset these significant costs in the rehabilitation of historic buildings that should be preserved. New construction projects are also less costly than rehab developments because a less-skilled workforce can be used, and cheaper materials can be selected. When working with a building that is already standing, only certain materials will fit the kind and character of that building, and may be significantly more costly.

SUGGESTED LARGE SCALE LIVE-NEAR AND LIVE-NEARBY LIVE-WORK HOUSING ATTRIBUTES

The arrangement that will be best suited for these uses will be two-story housing with a firm division between live and work areas of the structure, the live-near model. Because the uses identified will require separate ventilation to ensure that any fumes generated in the work portion are kept out of the living quarters. First floor work space with living space above or workspace behind a front living area would be ideal from access and density considerations as well as conforming to existing zoning requirements.

Flexibility in workspace location and design will be paramount for the successful implementation of this project, a single layout that is applicable to the identified uses as well as other unforeseen employment will ensure that the appeal of the live-work space is maximized.

A storefront facing the street and alleyway overhead doors wide enough for delivery of materials would be a requirement. The interior should be ready to be fitted with needed electrical, mechanical and other equipment to facilitate a wide array of work, but should not be

designed toward a specific industry.²³ The idea of a flex-use design is that it can grow and adjust to use and is a blank slate for artisans and industrialists to make of what they need.

SUGGESTED SMALL SCALE LIVE-WITH AND LIVE-NEAR LIVE-WORK HOUSING ATTRIBUTES

Live-work housing takes on several appropriate forms in the live-with type. Live-with types are appropriate for small sites in historic downtown areas, and larger plots where more extensive residential needs are present. Live-with types of housing are recommended for the smaller CBD and transitional regions where higher density housing and more pedestrian-oriented design is a particular asset. Two potential styles of live-with housing will be described in this section and are highlighted in the case studies below. These include flexhouses and home offices.

Flexhouses take on a visible form somewhat similar to the more commonly-known townhouse, which have been part of communities for nearly six thousand years. Townhouse development describes multi-level, single-household residences suited for home occupation with no legal separation between residential and non-residential uses. They are generally inflexible in terms of land use. As an alternative, a flexhouse project can be used in T3-T5 land use types (based on the urban transect model) and accepts a variety of uses. It is one of the most common kinds of live-work housing which exists in the United States today. The usual design includes a downstairs workspace (often retail or storefront) with residential space on the second and third floors above. Often, entry to the residential area is separated from the

retail use, giving it the appearance of a townhouse storefront design. However, flexhouses are “buildings that learn” in that they are designed to have the flexibility to change uses as needed based on the economic and social climate of the community.²⁴

“Flexhouses are ‘buildings that learn’ in that they are designed to have the flexibility to change uses as needed based on the economic and social climate of the community.”

The pre-approved uses are often clearly outlined in city codes and policies, and conditional use permits may guide the appropriate uses for the space on each level of the structure. They are a particularly successful project in communities in transition into a new retail market or in small town communities on the verge of new investment. According to Dolan, Volke, and Zimmerman, “Provided that the basic retail dynamics are supportive, a row of flexhouses can reestablish a commercial core in a disenfranchised neighborhood or create a new retail center for a neighborhood making the transition from warehouse or industrial use to mixed use.”²⁵

Home offices are another form of small-site live-with housing which offers zero-commute residential options. Home office housing is appropriate in T2-T5 transect zones, and is appropriate with almost any form of home construction, whether condominium, apartment, or single family home styles of housing. In its most basic sense, home office housing results from the conversion of a den or extra bedroom space into a home office space where a household member can work from home. More than a building type, it represents an activity which can be supported or encouraged by appropriate design and city policies. Structures that anticipate the national trends toward working from home allow for clients to visit without disturbing the residential home environment of the structure and allowing for both activities to occur in close proximity. Therefore, when seeking development with appropriations for home offices it is important to pay attention to zoning for a mix of uses and creating incentives to design that is conducive to operating business.

Live-work developments can easily be too small or too big. Striking the optimal number of units is essential to the success of a new development. According to Heidi Kurtze of Artspace Projects, developments smaller than 30 units have significantly higher costs per unit than the larger developments, primarily due to soft costs related to development. Developments that are “too big,” however, seem to fragment artist communities and do not create appropriate cohesiveness. Heidi recommends a 45-55 unit development is the most cost-effective and community-engaging size possible for live-work development.²⁶ Depending on whether the live-work space is a loft, flexhouse, townhouse, or single-family home, 45-55 units could be considered small scale or large scale as they have been defined above.

“Developments can easily be too small or too big.”

Case Studies: Live-Work Housing in the United States

MILWAUKEE, WI: PARK EAST ENTERPRISE LOFT

Developer: Gorman and Company

Architect: Gorman and Company

Tenants: Mixed-Income; 68 units Low-Income (80% LIHTC) and 17 Market Rate (20%)

Live-Work Units: 28 (85 total units, including non-live-work)

Type of Live-Work: Live-Near Loft

Total Area: 189,063 square feet

Address: 1407 North Martin Luther King Drive, Milwaukee, WI 53212

New construction of 85 apartments, roughly one third live-near live-work lofts and 68 units targeted at families making 50-60% area median income, the Park East Enterprise Lofts have ground floor office or retail space that connects to lofts above.²⁷ In addition, the site houses common spaces to support the start-up businesses like a business center and 16-seat presentation theater.²⁸

The development was met with early skepticism because it was built in an area not known for retail

spaces or foot traffic but it opened with all but one live-work lofts occupied and a waiting list of over 100 people for the market-rate units. The mixed-use/mixed-income building was financed with a \$4.7 million from the Wisconsin Housing and Economic Development Authority and \$7.5 million from the sale of 9% Low-Income Housing Tax Credits.^{29,30}

SAINT PAUL, MN: SCHMIDT ARTIST LOFTS

Developer: Dominion Development and Acquisition

Architect: BKV Group

Tenants: Low-Income Artists (100% LIHTC)

Live-Work Units: 260

Type of Live-Work: Live-With and Live-Near Loft

Total Area: 510,000 square feet

Address: 882 7th Street West, Saint Paul, MN 55102

This \$123 million adaptive reuse low-income housing tax credit project, developed and owned by Plymouth-based Dominion Development and Acquisition, opened in November 2012. The original structures on the site were built in 1900 as the Schmidt Brewery, with numerous additions occurring over the span of nearly 60 years. For two decades starting in 1955, it was owned and operated by the Pfeiffer Brewing Company from Detroit. The G. Heileman Brewing Company of La Crosse, Wisconsin bought the brewery in 1972, and the Minnesota Brewing Company purchased the brewery in 1991. Renovation costs were high, and the owners shifted their business toward producing fuels from grains as the Gopher State Ethanol Company. Fermenting corn to alcohol was an even more odorous process than brewing beer, triggering many complaints and lawsuits from the surrounding neighborhood because of the odors. Losses and lawsuits led to the brewery closing in 2002, ending 147 years of brewing at this site.

The large site was converted into 260 live-work residences for artists from the 21 different Schmidt Brewery structures that occupy the site. 147 rental units were constructed in the former brew house and another 100 rental units in the bottle house, with a majority of the units being affordable and intended for low-income artists. Additionally, Dominion will build 13 new three-bedroom townhouses adjacent to the bottle house by 2018. In addition to the 260 units, including unit sizes from 1 to 3 bedrooms, the

structure includes a clay-working space, soundproof studios, dance and craft studios, an art gallery, several performance theater rooms, and a rooftop deck.³¹

Financing was provided by Cornerstone Real Estate Advisors, U.S. Bank, Alliant Capital Ltd., and the City of St. Paul. The Saint Paul City Council authorized a \$69.3 million in conduit bonds for the Schmidt Artist Lofts project, which are tax-exempt bonds authorized by the city on behalf of Dominion, who is responsible for their payment. According to Heidi Kurtze of Artspace, bonds work especially well with large developments, and when the state has an affordable housing fund or gap financing.³²

The Schmidt Artist Lofts are no exception to the multiple-funding stream issue in affordable live-work housing development. In all, the development is supported by Low-Income Housing Tax Credits, state and federal historic tax credits, tax-exempt bonds, and environmental clean-up funds.³³ The total amount of tax credits for the Schmidt Artist Lofts (including low-income housing) was nearly \$70 million. The site won several awards within the first year of its opening, including “Best in Real Estate Adaptive Reuse” by the Minneapolis/Saint Paul Business Journal in 2013.³⁴

BEAUFORT, SC: THE LOFTS AT HABERSHAM

Developer: Habersham Land Company, Inc.

Architect: Rick Black (conceptual);
Ben Mieke (final design)

Tenants: Market Rate Rental and Owner-Occupied

Live-Work Units: 33

Type of Live-Work: Live-Near Flexhouse (Townhouse)

Total Area: 40,000 square feet

Address: 7B Market, Beaufort, SC 29906

This development is made up of a string of mixed-use zoned 3-level townhouses with a flexhouse, open design. Constructed between 2002 and 2006, these townhomes of Beaufort, South Carolina were designed in part by city planner Duany Plater-Zyberk.²⁵ Most of the flexhouses were pre-sold to future owner-occupants and built incrementally, with the later round of development including rental flexhouses. A truly mixed-use development, the Lofts at Habersham have two levels of residential living space set above a 710 square foot commercial space on the first floor

(24,000 square feet of commercial use in the whole development). Each live-work unit contains 2,130 square feet between all three levels.

An important feature of the Lofts at Habersham is its construction for flexibility. The buildings are designed to allow either commercial use on all three floors or residential use on the second and third floors over first floor commercial uses. The small commercial-intended space on the first floor of each flexhouse is designed specifically for small, mom-and-pop businesses, full restaurants, barber shops, antique shops, and clothing stores. Each first-floor space has a handicap accessible restroom and the potential for access to a 35x18 square foot backyard and parking spaces. The second and third floors are open-plan loft styles, with few interior walls. The structures have minimal interior finishes with visible steel bar joists, concrete floors, exposed wood beams, as well as visible HVAC and metal ducts.

The town of Beaufort made several accommodations to the developer to make it cheaper and easier for businesses to move into the Lofts at Habersham, including pre-approval for any combination of uses in the buildings given that an owner or tenant simply secure a business license from the town of Beaufort. According to Dolan (2012), this is the only case in which a live-work project has obtained a flexible entitlement for any residential or commercial use in any fashion on site.²⁶ The town also imposed a form-based code complete with detailed urban transect to guide the style of the development in keeping with the community's design. This form-based code specifically allowed for flexhouses and live-work development. The land on which the Lofts at Habersham were constructed was originally zoned as commercial land.

The 33 loft units frame the Habersham main street with a large tree-lined median running down the middle of the street, providing a pedestrian-friendly atmosphere. Each lot is 18 feet wide and 100 feet deep with assigned parking spaces behind the development for each unit. Accessory buildings are allowed in the backyards of the flexhouses, allowing for resident creativity in imagining garden spaces, outdoor dining, or other uses.

The most significant challenge in developing the Lofts at Habersham was the cost of construction since the whole structure had to meet commercial standards. It was completely funded by the developer as a market-rate project. Dolan (2012) estimates that the cost of construction for the lofts was about 8-10% more expensive than building a similar wood-frame residential building with lesser fire ratings.²⁷ However, Dolan believes "it is worth it to buy the flexibility you need to weather an unpredictable economy," as the ability to accommodate a variety of potential users the owner has a better chance of keeping the buildings fully occupied or selling them more successfully.²⁸ This development was successfully filled within a year of construction with all but six of the flexhouses being bought by nonresident investors who rent the units out, and the commercial spaces being rented out individually to companies selected by the developer. Of the six owner occupants, most live above their own business. These are market-rate live-work homes and are unlikely to be affordable to lower-income households in the near future. One of the two-bedroom lofts listed at \$475,000 in spring 2014.²⁹ Similar two-bedroom, two-bath loft units were renting for \$1,255 per month.^{30,31}

ELGIN, IL: THE ELGIN

Developer: Artspace

Architect: BKV Group

Tenants: Low-Income Artists (100% LIHTC)

Live-Work Units: 55

Type of Live-Work: Live-With Artist Loft

Total Area: 80,889 square feet

Address: 51 S. Spring Street, Elgin, IL 60120

The City of Elgin, Illinois is like many Chicago railroad towns, focusing on preserving its warm downtown atmosphere and regenerate economic development with arts at its focus. The community has experienced loss of retail and a spike in abandoned buildings since the 1970s, leading to economic decline in the community. The city's 2000 Center City Master Plan holds revitalization of the historic downtown district as a top priority. Realizing the role of artists in community revitalization and hearing local artists voice their concerns regarding housing affordability, the city council realized a new approach to affordable housing was necessary. City officials and Artspace staff,

together with the Elgin arts community, approached the nonprofit real estate developer directly to assist in revising a portion of their downtown community. This began a partnership between the City of Elgin and Minneapolis-based Artspace Projects to create affordable live-work spaces.

The development—about 40 miles outside of Chicago—was a result of the city council’s desire to develop more economic activity and residential living in the historic downtown area. The city of Elgin performed a land swap agreement with the Elgin Community College to obtain a historic Sears office building dating back to 1908, giving the College a 16-acre plot of land on the edge of town. Recognizing the architectural importance of the historic building, the city and Artspace developed the building as an “adaptive reuse.” The building’s original facade and aesthetics were maintained and a significant addition was added on.

This 2012 development by Artspace and architect BKV Group includes 80,889 square feet of total development space on a 30,000 square foot corner lot, including the rehabilitation of the Sears building and a substantial new construction building. This \$15.2 million live-work project created 55 units of affordable mixed-use space and 5,874 square feet of retail and community spaces for nonprofit organizations and artists, including a paved courtyard, meeting rooms, and an art gallery. The building was also constructed to certain energy efficiency standards, including the installation of high-efficiency windows and doors, a high-efficiency furnace and cooling equipment, Energy Star® lighting and appliances, low-flow bath and kitchen fixtures, and the use of low VOC paints, sealants and adhesives. The building’s environmental efficiency was aided by the Nicor Gas Energy Efficiency Program, which funded additional insulation that was originally removed from renovation plans due to budget constraints.³²

As a Low-Income Housing Tax Credit development, all residents must meet income guidelines setting them at or below 60% of the area median household income for their household size. The property includes 6 studio apartments, 27 one-bedroom units, 16 two-bedroom units, and 6 three-bedroom units, all for rent. Rents range from \$326 to \$1,018 depending

on the size of the apartment and the number of bedrooms. As an Artspace property, there is artist preference, meaning all are encouraged to apply and may be accepted, but artist applicants receive first choice above non-artist applicants. An Artist Selection Committee made up of active artists from the community meets with applicants and screens them for 1) sustained commitment to their craft, 2) excitement in participating in an artistic community, and 3) feel comfortable living in a more social building than other properties.³³ Although this can limit the speed with which the property can be leased, it aligns with Artspace’s mission “to create, foster, and preserve affordable space for artists and arts organizations.”³⁴ The Elgin building was full within the first year after construction was completed, and currently has a waiting list for future tenants.

Heidi Kurtze, the Vice President of Development at Artspace Projects, calls Elgin a “shining star” example of successful live-work housing and the ability of a small municipality to incentivize live-work development.³⁵

The project received funding from a variety of sources in the community. Because the development was located within a Tax Increment Finance District, the project acquired \$975,000 from the Central Area District. Along with donating the land to Artspace, the City of Elgin contributed \$1 million toward the \$14.5 million project. This was accomplished by the city selling the land in the private marketplace at \$2 million dollars, keeping \$1 million, and giving the other \$1 million to Artspace. The City of Elgin also paid the \$750,000 pre-development contract, helping the nonprofit save even more on the project.

Local businesses showed their support by raising \$300,000, and another \$300,000 came to the project through Tax Increment Financing (TIF). Another huge incentive to Artspace to develop this project was the lack of Payment in Lieu of Taxes (PILOT) on this project, which saved an estimated \$60,000 per year of ownership of the property.³⁶ PILOT fees can be a significant cost to nonprofit developers who are often required by local governments to pay PILOT fees in lieu of the taxes a for-profit developer would be charged.³⁷ The Illinois Housing Development Authority also provided significant assistance in \$1.1 million in federal tax credits for a 10-year period.

Ultimately, the development was financed primarily by the City of Elgin, Illinois Housing Development Authority, Kane County, the Bank of America Merrill Lynch, Fallbrook Credit Finance, and the Federal Home Loan Bank (AHP). Funding came from a multitude of sources with the most significant funds coming from American NTN Bearing Manufacturing Co., local foundations, and the Educational Foundation of America. According to Kurtze of Artspace, the only mistake that the City of Elgin made, as many communities do, was requiring commercial spaces be constructed before the residential spaces. Building commercial space “before there are even people there is doing things backwards.” However, most commercial establishments connected to the property were able to survive the construction period and maintain their leases.³⁸

The City of Elgin believes that ensuring permanently affordable housing for artists is a catalyst for economic development in the community, resurgence in the arts community, and renewed vibrancy in the downtown area. In a community that has seen significant decline in use of the downtown streetscape, Artspace’s development is seen as a logical economic investment. In the words of David Kaptain, Mayor of the City of Elgin, “I supported [Artspace because] they did this in 30 other communities and it worked 30 times; can’t do any better than that. It improves the community, it improves the tax base; it takes a piece of property that was paying no taxes... and now it’s going to pay tax back into the city.”^{39,40}

BRAINERD, MN: FRANKLIN ARTS CENTER

Developer: Artspace

Architect: Miller Dunwiddie Architecture

Tenants: Low-Income Artists (100% LIHTC residential), and Mixed-Income Artists (studios)

Live-Work Units: 25

Working Studios: 25

Type of Live-Work: Live-With and Live-Near Artist Loft

Total Area: 146,789 square feet

Address: 1001 Kingwood Street, Brainerd, MN 6401

Brainerd is a community of approximately 13,000 people 2 hours north of the Twin Cities area. Opened in 2008, the Franklin Arts Center was rehabbed from the iconic Franklin Junior High School building

(constructed in 1932). Artspace was approached by the Brainerd School District and a committee of citizens after they determined that creating an arts center would be the best use for the community. The new building has 25 live-work apartments and 25 art studios (37,775 square feet), plus 36,247 square feet operated by the school district as a community space. In all, the development includes 74,022 square feet of commercial space.⁴¹

“Brainerd was a joy to work with... it was easier to get the full city’s support, get straightforward information on the requirements, and have a greater community impact.”

The project—designed by Miller Dunwiddie Architecture—cost \$8.4 million dollars and was financed by the Brainerd Lakes Area Development Corporation, Brainerd Public Schools, the City of Brainerd, Crow Wing County, the Greater Minnesota Housing Fund, the Minnesota Department of Employment & Economic Development, the National Equity Fund, the National Park Service, and US Bancorp. Funding came from the Blandin Foundation, the Brainerd Lakes Area Community Foundation, Bremer Bank of Brainerd, The Crow Wing County Soil and Water Conservation District, the Initiative Foundation, Land O’Lakes Inc, the Mardag Foundation, the Mid-Minnesota Credit Union, and the Otto Bremer Foundation. The residential portion of the development is 100% LIHTCs set at 60% of the area median household income. Like other Artspace developments, the Franklin Arts Center holds an artist preference requirement. The Franklin Arts Center was successfully filled “almost immediately,” complete with artists, arts organizations, and an arts-oriented church operating out of the former school library.⁴² According to Heidi Kurtze of Artspace, Brainerd was a joy to work with, as the smaller community meant that it was easier to get the full city’s support, get straightforward information on the requirements, and have a greater community impact. “They even had a marching band play on opening day,” says Heidi, “you just don’t get that [kind of support] in the big city.”⁴³ The Franklin Arts Center was Artspace’s sixth development in Minnesota.

SAINT PAUL, MN: 653 GALTIER LOFTS (FORMERLY FROGTOWN FAMILY LOFTS)

Developer: Artspace and Twin Cities Housing Development Corporation (TCHDC)

Architect: Dovolis, Johnson & Ruggieri

Tenants: Low-Income Artists (100% LIHTC)

Live-Work Units: 36

Type of Live-Work: Live-With Artist Loft

Total Area: 61,551 square feet

Address: 653 Galtier Street, St Paul, MN 55103

This 61,551 square foot warehouse-conversion development opened in 1992 at the corner of Galtier Street and Como Avenue in Saint Paul's historic Frogtown neighborhood. The original structure was built in 1917 as a clothing factory, which was later converted into a printing press fabrication factory. The brick structure was co-developed by Artspace and Twin Cities Housing Development Corporation into a 36-unit lofted apartment building with 12 two-bedroom units and 24 three-bedroom units. The building features a lower and upper gallery space, a community room, laundry facilities, and indoor bike storage. It is highly accessible by bus and within walking distance of numerous restaurants, the Green Line Light Rail, grocery stores, and the Hmongtown Farmer's Market.⁴⁴

Funding for this \$3.6 million project came from the Bush Foundation, the F. R. Bigelow Foundation, Local Initiatives Support Corporation, the McKnight Foundation, the Northwest Area Foundation, Saint Paul Companies, the Saint Paul Department of Planning and Economic Development, and the Saint Paul Foundation. The project was financed by the AFL-CIO Housing Investment Fund, the Family Housing Fund of Minneapolis & Saint Paul, the Minnesota Housing Finance Agency, the National Equity Fund, the Saint Paul Housing and Redevelopment Authority, and U.S. Bank. Not only established with the standard artist preference from Artspace, 653 Galtier Lofts also had an active Artist Cooperative in place for the first 20 years of the building's existence.⁴⁵

The 653 Galtier Lofts are a prime example of a warehouse conversion project which happened in a railhead city at a moment of decline. Most warehouse conversion developments are generally simple as they do not require significant changes to the space's

physical attributes. Bare brick walls remain visible with wood and concrete floors and exposed roof beams. Warehouse conversion units are almost always live-with designs with one or two floors. The 653 Galtier lofts includes 12 single-level units with large patios, and 24 two-level units with vaulted ceilings.

"The 653 Galtier Lofts are a prime example of a warehouse conversion project which happened in a railhead city at a moment of decline."

Site Zoning Considerations and Land Use Regulations

Live-work developments are mixed-use developments where consideration must be taken of both residential and commercial uses. This can pose challenges when considering zoning for building and regulation. A community with strict and static divisions between residentially zoned areas and business districts will face regulatory roadblocks if they are looking to develop live-work housing. Bringing together specific codes for live-work development in a designated chapter could further clarify the guidelines cities wish to set forth for live-work housing. A selection of model codes can be found in "Appendix 1: Sample Codes to Help Make Live-Work Developments."

Planning regulations are slightly different from building codes as they tend to be highly situated in local context. The purpose of specifying planning codes is to regulate and incentivize the creation of certain physical forms and character while welcoming a mix of compatible uses. Figure 1 (page 5) lists the work uses compatible with residential uses, suitable living proximity types, appropriate locations for live-work uses, and required unit areas for each type. Planning regulations should be chosen carefully to guarantee that uses compatible with residential life are allowed and incompatible activities are restricted. Lifestyle and live-work lofts fit well in a lively mixed-use district, often serving as the transition between residential and commercial/industrial areas, between downtown commercial and industrial neighborhoods, or generally on the edges of residential neighborhoods.

The permitting process for live-work residences, particularly in the case of new construction developments, should be closer in character to residential regulations. This means instituting design review for matching the development to the surrounding neighborhood character, maintaining open space requirements, enforcing inclusionary zoning, and the full imposition of school impact fees.⁴⁶ Cities can encourage and incentivize live-work housing development through specific benefits afforded to such development in zoning and building codes. Additional examples include allowing greater residential density for live-work developers (density bonuses), having flexible requirements for open spaces, and holding live-work developments to less stringent parking space requirements.⁴⁷

Other practical ways cities can decrease the cost of building affordable live-work housing is to reduce or waive permit fees, provide pre-development contract or pre-development costs (so that the developer does not have to pay these), reduce acquisition prices (or donate the necessary land), or do a minimal Payment In-Lieu of Taxes (PILOT). The PILOT option is popular among cities that do not have cash to work with, and the agreement can mean that the property owner does not pay a tax on improvements to the property for 15 years. One problem with this program is that on affordable housing projects, rents often still do not increase at a rate that can cover the operating costs of the building. This is an issue that can only be met by outside funding opportunities.⁴⁸

Many municipalities have adopted programs which reflect goals similar to those of live-work housing. For example, the city of Saint Louis Park partners with local businesses to fund a Live Where You Work program.⁴⁹ This program provides \$2,500 grants to people employed by Saint Louis Park businesses who buy homes in the city. The seed funding is provided by the city and it is matched by many employers. In response to the foreclosure crisis, an additional \$1,000 is available to homebuyers who buy a bank-owned property.

Funding and Financing of Live-Work Housing

In almost every example of live-work housing in this report, local municipalities approached the developer

specializing in live-work housing. Local municipal governments play an important role in seeking out this kind of development and laying the foundation for proper funding and integration of the project. If done mindfully and with an experienced developer cognizant of the necessary community features for creating a successful live-work space, this form of development has the potential to create many positive ripple effects in a community. The most common funding sources for live-work housing vary from state to state. In Minnesota, the most common are city funds, the Low-Income Housing Tax Credit, the Minnesota Housing Finance Agency, local redevelopment authorities, Tax-Exempt Bonds, Environmental Cleanup Funds, the Minnesota Department of Trade and Economic Development, HOME funds, the FHLBC, charitable trusts and foundations, and banks.

THE LOW-INCOME HOUSING TAX CREDIT

Most live-work developments designed for rental occupancy are tied to the Low-Income Housing Tax Credit (LIHTC) program. Developments with LIHTCs have 100% of their units allocated under the Tax Credit with rents set at 50-60% of the area median household income which varies from region to region. In this program, all residents must “income qualify” through requirements of Section 42 of the IRS code. Developers complain this is an inefficient program, but it is the only one that seems to “work.”⁵⁰ LIHTCs are increasingly difficult to obtain due to local competition, and complicated further by the 3 years that it takes to apply and the changing criteria from year to year.⁵¹

NAVIGATING OTHER FUNDING SOURCES

Funding large live-work projects—or any affordable housing project—is complicated by the fact that no funder seems to want to be the first to give money to a project.⁵² According to Heidi Kurtze of Artspace Projects, once a private funder sees a project is receiving LIHTCs or funding from another significant source, then they will be more willing to contribute as well.⁵³ In Minnesota, some of these funding sources include the McKnight Foundation, the Kresge Foundation, and the Minnesota State Arts Board. Many developers also come in with their own capital funds even when they are nonprofit organizations developing affordable housing.

Developers are significantly restrained by the bureaucracy and red tape associated with navigating the multiple funding sources that they must draw on to develop affordable housing. Any accommodations a municipality can make to providing funds or the support to acquire necessary funds will make developers more eager to work in that community. This can be done through direct financing or tax incentives.⁵⁴

Conclusion: The Impacts of Successful Live-Work Housing

Community visioning and building is a collaborative effort. Engagement, input, and support from city officials and community members are key to a project's success. However, a city is the single most important partner in the development process, and

their support is key to the process—not only in terms of the money they can provide, but in their ability to see the bigger picture of how the development can impact the community in positive ways. Cities have the power to create bonuses and incentives which create opportunities for developers to revitalize commercial and residential space in the community.⁵⁵

Live-work housing can integrate and energize a community, bringing new residents and businesses to districts and bridging residential and commercial zones. It is a cost-effective housing option that appeals to changing demographics while being environmentally sustainable and fostering walkability and livable communities. The variable approaches, designs, and implementation strategies mean live-work can be utilized across multiple locations with different assets and demands.

Appendix 1: Sample Codes to Help Make Live-Work Developments

17.50.370 - Work/Live Units¹

- A. Applicability. This Section provides standards for work/live and artists lofts/studios, including the reuse of existing nonresidential structures to accommodate work/live opportunities. Work/live quarters are especially intended for the use and occupation of artisans, artists, and individuals practicing similar professions as well as their families.
- B. Design standards.
1. Floor area requirement.
 1. A work/live unit shall have a minimum floor area of least 1,250 square feet.
 2. The maximum size of the residential portion of the work/live unit shall be 30 percent of the unit or 400 square feet, whichever is less, in order to ensure that the residential portion remains an accessory to the primary commercial use.
 3. A ground-level work/live unit with street frontage shall devote the initial 25 feet of floor area depth to commercial activity.
 2. Unit access. Where there are multiple work/live units within a single structure, each unit shall be physically separated from other units and uses within the structure, and access to individual units shall be from a common open space, corridor, hallway, or other common access area.
 3. Internal integration of the work/live unit.
 1. There shall be direct access between the working and living spaces within the work/live unit.
 2. There shall be no separate entrance to the living space by a separate door. All access to the living space shall be from the working space.
 3. The working space shall not be leased separately from the living space; conversely the living space shall not be leased separately from the working space.
- C. Occupancy and employees.
1. At least one full-time employee of business activity occupying the work/live unit shall also reside in the unit; conversely at least one of the persons living in the live portion shall work in the work portion.
 2. The business activity occupying the work/live unit may utilize nonresident employees, as necessary.
- D. Prohibited land uses. The following shall not be allowed in a work/live unit:
1. Sexually oriented businesses;
 2. Motor vehicle maintenance and repair; and
 3. Welding and/or machining.
- E. Hazardous Materials. All uses with hazardous materials shall comply with the California Fire Codes and other applicable codes.
- F. Mix of land uses. An appropriate mix of land uses shall be established through the Conditional Use Permit process, in compliance with Section 17.61.050.

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1. Sexually oriented businesses;
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 3. Welding and/or machining.
- E. Hazardous Materials. All uses with hazardous materials shall comply with the California Fire Codes and other applicable codes.
- F. Mix of land uses. An appropriate mix of land uses shall be established through the Conditional Use Permit process, in compliance with Section 17.61.050.
- G. Compliance with City inspection program required.
1. In order to ensure that a work/live unit continues to be operated as a bonafide work/live unit, all work/live units shall be subject to the City's quadrennial inspection program, if leased or rented, in compliance with Municipal Code Section 14.16.030.

2. For a work/live unit that is owner-occupied or has been converted to a condominium, the units would be subject to the City's inspection program at the time each unit is resold.
- H. Business License required. The occupants of the work/live units shall maintain a valid City Business License in order to ensure that the primary use remains a commercial use.
- I. Inclusionary housing requirements. The construction of work/live units shall be subject to the inclusionary housing requirements of Section 17.42.040 (Inclusionary Unit Requirements).
- J. Environmental assessment required.
1. Reuse of an existing structure shall require environmental assessment of the site.
 2. The written assessment report shall be submitted as part of the Conditional Use Permit application.

19.26.230. Live/work units.²

- (a) Definition. A live/work unit is defined as a single unit (e.g., studio, loft, or one bedroom) consisting of both a commercial/office and a residential component that is occupied by the same resident. The live/work unit shall be the primary dwelling of the occupant.
- (b) Applicability. Live/work units are allowed in mixed use (MU) combining districts.
- (c) Provisions.
- (1) The commercial component of live/work units are intended for use by the following occupations: accountants; architects; artists and artisans; attorneys; computer software and multimedia related professionals; consultants; engineers; fashion, graphic, interior and other designers; hair stylists; home-based office workers; insurance, real estate and travel agents; one-on-one instructors; photographers, and similar occupations;
 - (2) In addition to the permitted uses above, the community development director may authorize other uses using reasonable discretion, as long as such other uses are not otherwise precluded by law;
 - (3) The residential and the commercial space must be occupied by the same tenant, and no portion of the live/work unit may be rented or sold separately;
 - (4) Residential areas are permitted above the commercial component, to the side or in back of the business component, provided that there is internal access between the residential and commercial space;
 - (5) The commercial component as designated on the floor plan approved through the special development permit shall remain commercial and cannot be converted to residential use;
 - (6) The residential component as designated on the floor plan approved through the special development permit shall remain residential and cannot be converted to commercial use;
 - (7) The commercial component shall be restricted to the unit and shall not be conducted in the yard, garage or any accessory structure;
 - (8) The commercial component shall not detract from, or otherwise be a nuisance to, the residential character or appearance of the dwelling units;
 - (9) Signage intended to promote on-site commercial uses shall be restricted to two square foot signs permanently affixed to door or wall of the business component;
 - (10) Signage shall be developed in accordance with a master sign plan for the overall development site;
 - (11) All advertising for on-site commercial uses shall clearly state "by appointment only" if the live/work address is used;

Appendix 2: Developer Contact Information

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GORMAN AND COMPANY

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Oregon, WI 53575

Phone: 608-835-3900

Fax: 608-835-3922

Website: http://www.gormanusa.com

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(also Davis & Floyd Inc)

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and

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Phone: 864-229-5211

Website: http://www.davisfloyd.com

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Phone: 612-337-0000

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Website: http://www.millerdunwiddie.com

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